D.H.HOWDEN & CO. LIMITED
1977 REPORT TO SHAREHOLDERS

HOWDEN

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D.H. HOWDEN & CO. LIMITED

HOWDEN

interim report to the shareholders

For the first quarter ended
March 31, 1977

D. H. HOWDEN & CO. LIMITED

To Our Shareholders:

Consolidated sales for the first quarter of 1977 were $15.3 million compared to $14.9 million for the same period of 1976.

We report consolidated net income after taxes of $199,000 or 36¢ per common share as compared to $307,000 or 55¢ per common share in 1976.

Sales and profit for the first two months were depressed, but improved substantially in March.

I am pleased to advise that at their regular quarterly meeting, your Board of Directors again declared a dividend of 15¢ per common share, payable on June 30, 1977, to holders of record as of June 15, 1977.

London, Ontario
April 25, 1977

D. H. M. Stewart
President

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	For the Three Months Ended March 31		For the Twelve Months Ended March 31	
	1977	1976	1977	1976
Gross Sales	$15,320,483	$14,978,321	$60,148,338	$54,344,536
Estimated Net Income Before Taxes	$ 375,520	$ 604,632	$ 1,353,670	$ 1,958,858
Estimated Provision for Income Taxes	176,000	297,000	559,000	929,500
	$ 199,520	$ 307,632	$ 794,670	$ 1,029,358
Earnings per Common Share	$ .36	$ .55	$ 1.40	$ 1.82

D.H. HOWDEN & CO. LIMITED

HOWDEN

interim report to the shareholders

For the Nine Months Ended
September 30, 1977

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To Our Shareholders:

Consolidated sales for the first nine months of 1977 were $51.4 million compared to $45.2 million for the same period for 1976 for an increase of 13.6%.

We report consolidated net income after taxes of $856,198 or $1.53 per common share as compared with $878,309 or $1.57 per common share in 1976. As a result much of the profit decline in the first quarter has now been recovered. The new 3% tax allowance on 1977 opening inventories is not included in these figures and would amount to approximately an additional $.20 per common share.

Support from our Pro franchises and programmed building supply outlets continues strong and the number of both continues to grow. We anticipate improved fourth quarter results over those of 1976 and 1977 earnings per share to exceed 1976 results.

The company retired its outstanding first preference shares as of October 14, 1977.

I am pleased to advise that at their meeting of today's date, your Directors declared a half yearly dividend on the common stock of the company of 17½ cents per share payable on December 30, 1977 to holders of record as of December 15, 1977, an increase of 2½ cents per share.

London, Ontario
October 31, 1977

D. H. M. Stewart
President

CONSOLIDATED STATEMENT OF EARNINGS (Unaudited)

	For the Nine Months Ended September 30		For the Twelve Months Ended September 30	
	1977	1976	1977	1976
Gross Sales	$51,383,144	$45,228,708	$65,960,612	$58,468,913
Est. Net Income Before Taxes	$ 1,656,198	$ 1,668,309	$ 1,570,671	$ 1,875,635
Est. Provision for Income Taxes	800,000	790,000	690,000	846,500
Net Income After Taxes	$ 856,198	$ 878,309	$ 880,671	$ 1,029,135
Earnings per Common Share after Provision for Preference Dividends	$1.53	$1.57	$1.55	$1.82

HOWDEN

interim report to the shareholders

For the Six Months Ended
June 30, 1977

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To Our Shareholders:

Consolidated sales for the first six months of 1977 were $33.6 million compared to $30.1 million for the same period of 1976.

We report consolidated net income after taxes of $546,500 or 98 cents per share as compared with $587,000 or $1.05 per share in 1976.

The number of Pro Hardware Franchise Dealers continues to grow as does the number of Building Supply Home Improvement Centers that are being supplied by Howden on a national basis. Our enlarged spring customer advertising programs proved successful in expanding dealer retail sales. Both of these factors were principle reasons for the 20% sales growth and the 24% increase in net profit in the second quarter over the second quarter of 1976. As a result much of the profit decline in the first quarter has been recovered.

Our attitude towards the final six months is one of confidence in spite of not too buoyant economic conditions in many parts of Canada.

D. H. M. Stewart
President

July 25, 1977

CONSOLIDATED STATEMENT OF EARNINGS

	For the Six Months Ended June 30th		For the Twelve Months Ended June 30th	
	1977	1976	1977	1976
Gross Sales	$33,611,061	$30,151,687	$63,265,550	$56,409,520
Estimated Net Income before Taxes	$ 1,034,508	$ 1,121,989	$ 1,495,301	$ 1,861,495
Estimated Provision for Income Taxes	488,000	535,000	633,000	863,500
Net Income After Taxes	$ 546,508	$ 586,989	$ 862,301	$ 997,995
Earnings per Common Share After Provision for Preference Dividends	$ .98	$ 1.05	$ 1.52	$ 1.77

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the Six Months Ended June 30	
	1977	1976
Source of Funds		
Net income from operations	$ 546,508	$ 586,989
Non-fund items		
Depreciation and amortization	67,638	34,863
Share of net income of corporate joint ventures	(18,288)	-
	$ 595,858	$ 621,852
Investment in mortgage receivable		45,377
Reduction of mortgage and debenture receivable		14,074
Second preference shares issued	27,000	49,000
Reduction of advance to corporate joint venture		50,300
Long term debt	626,542	-
	$ 1,249,400	$ 780,603
Application of Funds		
Equipment and leasehold improvements	$ 175,053	$ 169,630
Decrease in long-term debt	-	255,389
Reduction of first preference shares	-	9,000
Redemption of second preference shares	21,500	9,500
Dividends	92,358	92,848
	$ 288,911	$ 536,367
Increase in Working Capital	$ 960,489	$ 244,236

The above statements are taken from the Company's unaudited interim financial statements as of June 30th, 1977 and are subject to adjustment on audit at December 31st, 1977.

Head Office
635 Southdale Road, London, Ontario

Auditors
TOUCHE ROSS & CO.

Listing of Common Stock
TORONTO STOCK EXCHANGE

General Counsel
HARRISON, ELWOOD, BARRISTERS AND SOLICITORS

Associated Company
COMPUTER HORIZONS (CANADA) LIMITED
President - S. R. Millar

Transfer Agents and Registrars
CANADA TRUSTCO
(Common and Second Preference Shares)
Toronto, Montreal, London, Winnipeg, Calgary, Vancouver

ROYAL TRUST CO. — TORONTO
(First Preference Shares)

Annual Meeting
The Annual Meeting of the Shareholders of the Company will be held in the Prince of Wales Room, Holiday Inn, City Centre Tower, 300 King Street, London, Ontario, on Friday, the 5th day of May 1978, at the hour of 11:30 a.m.

Highlights

	1977	1976
Gross Sales - increase 13.5%	**$67,873,794**	$59,806,176
Net income	**1,205,827**	902,782
Per Common Share	**2.14**	1.59
Inventories	**8,326,397**	7,919,376
Working Capital	**9,979,676**	8,956,539
Ratio of current assets to current liabilities	**2.28:1**	2.36:1
Shareholders' equity per Common share	**12.27**	10.45
Return on net worth	**19.02%**	16.13%

Directors

JOHN W. ADAMS, F.C.A.
Executive Vice President, Treasurer and Director, Emco Limited
Director, Sifton Properties Limited

T. BRAYL COPP
President, Copp Builders' Supply Company Limited

JOHN B. CRONYN
Corporate Director and Consultant, John Labatt Limited

JOHN D. HARRISON, M.B.E., Q.C.
Partner, Harrison, Elwood, Barristers and Solicitors

DONALD R. HUGHES
Retired; Formerly President, Spancan Inc.

NORMAN McBETH
Vice President-Finance, and Secretary Treasurer

DAVID H. M. STEWART
Chairman
President, Pro Hardware (Canada) Limited

JOSEPH H. UNGER
Retired; Formerly President, Metropolitan Stores of Canada Limited

Officers

D. H. M. STEWART
President and Chairman of the Board

N. McBETH
Vice President-Finance, and Secretary Treasurer

K. G. ALLASTER, C.A.
Vice President-Controller

W. J. TARVIT
Vice President of Marketing-Hardware Division

F. P. FORAN
Vice President of Marketing-Building Supply Division

C. W. K. LEROY
Vice President of Marketing-Electrical Supply Division

R. C. McKERLIE
Vice President-Merchandising

M. C. HUMPHREY
Vice President-Distribution

M. C. TUCKER
Vice-President, Corporate Planning

The Company in 1977 again achieved gratifying results in earning for our shareholders a return of 19% on their investment...

...our thanks are extended to our staff, our suppliers, our shareholders; and particularly to our many dealers and customers who place our merchandise in the hands of the ultimate consumer...

We report record sales and earnings in 1977. Sales rose 13.5% to $67.9 million and resulted in net earnings of $1,205,827, an increase of 33% over 1976. Net Profit return on Shareholder Equity was 19% compared to 16% in 1976. Earnings per share were $2.14 compared to $1.59 in 1976.

The record earnings were largely a result of being able to improve the productivity of our staff, thereby processing increased sales volumes with but a small addition to personnel. This in turn resulted from our making better use of our facilities through improved material handling equipment and organization. We increased the productive use of money through higher turnover of inventory and accounts receivable, and were aided by lower rates of borrowing costs. We did a better job too in managing freight cost both inward and outward, by obtaining more productive use of our transport facilities. The Electric Division improved its profit contribution not from increased sales volume but through improved cost control and better productivity of staff.

The Hardware Division achieved substantial growth, through adding new Pro Stores, and from expanding and improving many existing franchised stores. The number of Pro Stores now approximates 300. An expanded program of Pro Consumer Advertising proved effective in enlarging the Howden market share.

The Building Supply Division also recorded important advances as more dealers systematically increased their concentration on sales of consumer products to the "do it yourself" market and away from the declining home building construction. This Division expanded its sales organization dramatically in 1977 and now has established a strong dealer network in most provinces of Canada. The basis is set for our continued progress as a National Distributor. We are proud to report that at the recent Building Materials Convention at Dallas, Howden received the Van Kirk Award as the outstanding Hardware Distributor serving Canadian Building Supply Retailers.

Distribution Management also achieved major success in processing record volumes of merchandise. Their accomplishments were dependent on elaborate warehousing rearrangements. Management is now engaged in planning further warehouse building expansion to meet forecast shipments in 1978 and beyond.

Computer Horizons (Canada) Ltd., our joint venture with Management Horizons of Columbus, Ohio, continues to expand and to make a contribution to overall corporate results. Unfortunately the higher cost of U.S. funds in 1977 detracted somewhat from earnings. Its management has achieved substantial progress in establishing a base for future growth.

During 1977 Howden's inhouse computer staff developed many innovative changes. New approaches have been established for reporting on a regular basis the distribution cost involved in selling the various items we inventory. The net effect is to put our dealers in an improved competitive position through their recognition of superior purchasing practices. In this regard new pricing structures are being established for 1978, to simplify our methods and to make our Company increasingly competitive in the marketplace.

During the last quarter of 1977, we introduced a new system of computerized inventory control, and we expect that it will result in an improved service level.

In reporting the results of 1977 on behalf of the Board of Directors, I express appreciation and thanks to all of our staff for their efforts and fine work. As a result of their industry and effectiveness distribution under the employee profit sharing program increased to approximately $97,000.

We are grateful to our shareholders too for their continued confidence in our efforts and we are pleased that during 1977 we were able to increase the annual dividend. Shareholders will also note that during the year we retired the balance of outstanding first preference shares.

We particularly thank our customers for their continued patronage and support. In this issue of our Annual Report we pay tribute throughout several sections to the unique and crucial role which they play in satisfying the needs of the ultimate consumer.

We look to continuing progress in 1978.

On behalf of the Board.

David H Stewart

D. H. M. Stewart
President

''Pro Hardware serves you best'' - The theme of over 300 Howden Franchised Dealers.

1. Timmins Pro Hardware, Timmins, Ontario

2. Brampton Pro Hardware, Shoppers' World Mall, Brampton, Ontario

3. Cedarbrae Pro Hardware, Cedarbrae Mall, Toronto, Ontario

4. Pro Hardware Centre, Scarborough Town Centre, Scarborough, Ontario

5. Twin Pro Hardware, Rossland Square, Oshawa, Ontario

6. Niagara Pro Hardware, Niagara Falls, Ontario

7. Parkdale Pro Hardware, Waterloo, Ontario

8. Lynwood Pro Hardware, Bell's Corners, Ottawa, Ontario

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Throughout Canada over 600 retail stores are identified as "Pro Hardware Stores". Over one half are located in Ontario and the Atlantic Provinces. For over ten years Howden has been supplying and merchandising this constantly growing group from its warehouse facilities in London, Ontario.

What kind of stores are these? They vary in size and style. They range from 3,000 to 14,000 square feet in selling space. Their style is suited to the hundreds of rural and small town communities they serve, or just as comfortably, to urban mall settings. Prominent on the exterior is the identification "Pro", and within, the consumer finds a broad range of hardware, tools, plumbing, electrical, housewares and outdoor living products.

Historically many of the stores have been finely entrenched in their communities for impressive years. Among the first Pro franchise members were such prominent names in the hardware industry as Pounder Bros. of Stratford, Anderson of Simcoe, Silcox of Ridgetown, Cook of Leamington, Sanderson, and Medlyn of St. Thomas, Cowan of London, Smarts of Brockville, Dejardins of Hull, Lee of Almonte, McInnis of Woodstock and many others.

Several expansionary influences have shaped the Pro Franchise capability. The influx of franchisees which occurred in the sixties throughout the towns and cities of Ontario was steady and gratifying. Soon it became clear that consumer needs being happily satisfied in Ontario were surfacing in the Atlantic Provinces. When the opportunity then arose in the early 70's, the Pro system was thus in a position to expand in that area. Numerous franchisees and other Howden dealer accounts now operate successfully throughout New Brunswick, Prince Edward Island, Nova Scotia and Newfoundland.

The tendency of people to concentrate in certain heavily populated areas of Ontario has always presented a marketing challenge. Recent expansion within the Pro System reflects growing participation in this attractive market. Shopping Mall Stores conform to the basic Pro pattern easily, and in addition employ whatever variations are needed for the unique buying preferences of the mall customer. Some of our newest Pro Stores are located in such prestigious shopping malls as Cedarbrae in Toronto, Scarborough Town Centre, Westmount, Westown and Argyle Malls in London, Shoppers' World in Brampton, and Kingston Shopping Centre in Kingston. New openings will occur in 1978, and more are planned in 1979.

Whether his site be a rural community, a small city, or a heavily trafficked mall, the Pro Dealer is reacting well to the challenges of growth and change - key words of the Canadian Hardware Industry over the last decade.

Several stimuli are present. For example, where service rarely exists in the large impersonal supermarket approach to retailing, more and more people are attracted by the Pro Hardware Dealer's philosophy of down-to-earth service. The personal touch creates both consumer satisfaction and word of mouth recommendation, which in turn, build greater turnover.

This unique customer/dealer relationship has led naturally to a logical range and diversification of stock. The Pro Dealer's opinion is sought by customers looking for vacuum cleaners, paints, cutlery, or outdoor living products. Out of this process has evolved Howden's "basic stock" policy - a program which ensures that a core of some 8,000 items, demand for which is both constant and frequent, is maintained at proper levels within the Pro store. At the same time access to a total of some 19,000 items is always available. Seasonality is no longer singular to retail hardware practices, and it can be said of the Pro Dealer that he is indeed a man for all seasons.

Another impelling factor is the do-it-yourself boom. More and better equipped basement workshops have discovered the carpenter, plumber, electrician and general handyman in every average householder. The rising costs of home trade services too, have lent impetus to this trend. The householder therefore turns to the store and to the man whom he knows and trusts for advice on tools, equipment, materials and methods.

The principle of appropriate inventory is basic to the Pro Franchise. No less so is identification - the tangible expression of association with an authoritative, sound, and aggressive patron. "Pro" identification provides recognition both visual and convincing. It also gives, in fact requires, that the physical resources of the store conform to proven up-to-the minute design, both interior and exterior.

Potent advertising and sales promotion are emphasized. These include newspaper advertisements, store banners and displays, full colour catalogues, flyers, and in some areas television and radio presentations, all prepared by trained specialists. Of similar importance are automated systems for accounting, financial planning, and operational control.

The systems have proved themselves over the years, and Pro dealers generally have enjoyed much growth. Many have widened their operations to include additional outlets. For the future, the Pro dealer is keenly aware of the evolution of hardware stores into "total service Home Centres", a goal which many now approach. Howden is gratified to witness this expansion, confident that further success lies ahead for this most vital retail function.

''Service through Dealers from Coast to Coast'' - Howden's Building Supply Division at work.

1. Leematt Pro Home Centre, St. John's, Newfoundland

2. West Fraser Building Supplies Ltd., Nanaimo, British Columbia

3. Dupuy & Frere Inc., St. Lambert, Quebec

4. Pro Home Centre, Cote St. Luc, Montreal, Quebec

5. Ptarmigan Enterprises Ltd., Brandon, Manitoba

6. M. F. Schurman & Co. Limited, Charlottetown, Prince Edward Island

7. Lansing Lumber Mart Ltd., Mississauga, Ontario

8. Marc Rousseau Ltee., Laval, Quebec

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Operations Review, Building Supply Division

For at least two generations the term "Lumber Dealer" has been a household word in every community. Over 7,000 such business enterprises operate in Canada, and their combined annual sales at retail exceed $900 million.

Howden is a full line hardware supplier to approximately 800 of these retailers all across Canada. Thirty-two dealers in Newfoundland support Howden programs, as do a similar number in British Columbia; and in the vast stretches between, every Province is represented by customers serviced out of Howden facilities. Some of these entrepreneurs are completely independent, but many are associated with well recognized buying groups such as Allont Buildall, Colpo, Aid, Wiseway, and Chimo Charlie Canada Ltd. Membership within such associations provides purchasing economies and merchandising skills as they apply to lumber and building products. Association with Howden provides similar and additional benefits as they apply to a growing number of hardware lines. To provide necessary liaison and marketing assistance, the Howden sales organization prior to 1977 expanded its permanent network throughout Eastern Canada and the Atlantic Provinces. In 1977, the sales organization was similarly established throughout British Columbia and the mid-western Provinces.

For years the stock in trade of the typical Building Supply Dealer was essentially lumber and nails. Its customers were in the main contractors. But in the early 1960's the hardware components of a successful lumber dealer began to enlarge to include myriad products each associated with and complementary to the yard's prime inventory - wood and building materials. And significantly, no longer was the contractor the sole buyer of such products; increasingly, the ultimate user became the customer.

When Howden today contracts to supply a Building Supply Dealer, it first sets up an appropriate model inventory. It will be comprised of 5 - 6,000 items all of which are known to move with frequency and consistency. Hardware to hang a door, to activate kitchen cupboards, the hammer, the power saw, plumbing in all its wonderful shapes and colorful nomenclature, wire, switches, lighting devices, aluminum foil insulation, polyethylene, items decorative in nature, such as wood mouldings, spindles, lock sets, decorative brick, ceiling beams, fire places, - all are but part of the 6,000 items of model inventory of an up-to-date dealer. The sales profile of the average building materials operation in the USA indicates that slightly more than one half of its sales are in lumber and building materials. The remainder is spread somewhat equally over normal hardware categories such as, housewares, hand and power tools, paints, sporting goods, plumbing and electrical supplies, major appliances and automotive supplies.

After basic stock is defined and operative, Howden accounts can also draw on a further 13,000 items of general or specialized hardware as needed.

The do-it-yourself influence is obviously strong in the Building Supply context. All the requisites for today's handyman are under one roof. The materials themselves become increasingly sophisticated from a technical point of view, but simple enough that the layman adapts with reasonable ease. Undoubtedly today's handyman - really every man - is himself becoming increasingly sophisticated in mechanical matters, especially as they pertain to his living environment.

As in all merchandising, the correct inventory is crucial, and its availability from one source providing full line service and products is doubly valuable. In its contract to supply, however, Howden provides further dealer benefits. Model inventory programs based on varied velocities are designed to turn retail inventories profitably. Store modernization and engineering services, low cost direct factory shipments, retail price change updates, automatic and computerized reordering devices, and very strong advertising programs are but a few of the techniques available within Howden contracts.

Many references are made to the "Home Centre". Perhaps no firm definition of the term is completely acceptable, but most consumers are increasingly aware of its presence. A hardware store of 5,000 square feet mushrooms to 10,000 square feet of selling space; a building supply operation to 25,000. Into these expanding areas go specialized departments of hand and power tools, home decorative supplies, plumbing, heating and electrical components, lines of lighting, floor materials, farm and garden supplies, furniture and other product classifications. In essence the Home Centre range of products satisfies the normal needs of the normal householder. In comparison to the sales mix of the building materials dealer, the emphasis is less concentrated on lumber and building materials and leans more heavily to traditional hardware and home improvement products. A modest number of Home Centres now operate in Canada, usually in urban centres. They are the forerunners. Many more will evolve.

Over the past five years, Howden's Building Supply Division has almost tripled its sales volumes. Regardless of often hectic economic times, growth will continue at a healthy pace. The proven skills of the Building Supply Dealer in satisfying the householder's complete requirements within his cost frame, the rising eminence of the Home Centre, and the Division's consistent approaches to Eastern and Western markets, provide substance for such an outlook.

New construction, Industry, the Consumer ...all enjoy projects of Howden Electrical Supply.

1. For its high bay lighting General Motors Diesel placed Holophane fixtures in its London plant for use with high pressure sodium lamps. Efficiency is greater than conventional mercury vapour lighting; power savings exceed 1.1 million KWH per annum.

2. Power distribution centre at the new London Ontario Arcade Mall features 6 sections back to back.

3. Typical Lite Gallery Franchises feature well planned displays of the best in interior and architectural lighting.

4. High pressure sodium luminaires atop single mast at Livingston Industries Limited of Tillsonburg illuminate 8 acres, providing highly effective lighting with minimal power consumption.


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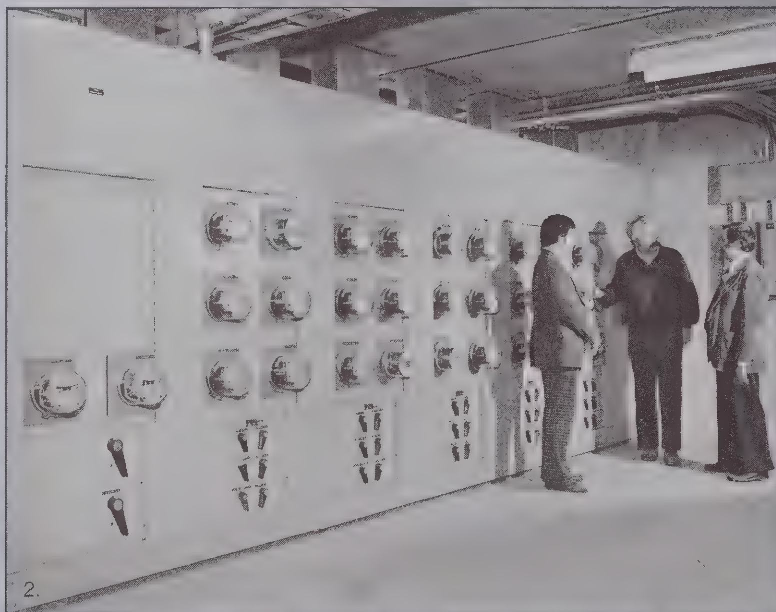
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Beginning in 1945 Canada's rapidly expanding construction industry created great opportunities for the electrical contractor. His contribution was vital and has continued so.

Howden commenced electrical distribution in 1949, in recognition of this market promising in size and potential. The Division grew rapidly. It currently supplies the needs of 1,000 electrical contractors and 500 industrial users of electrical equipment. Its customers are mainly in Western Ontario.

As the building industry soared to impressive heights of achievements in the 1960's, it carried the electrical contractor along with it. As was inevitable, he also shared the recessions which buffeted construction markets of the 1970's. To cope with these changing and increasingly stringent conditions, electrical distributors had to face serious readjustments in their organizational structure and strategies. Reduced market activity, relentless competition, narrowing margins, high fixed costs, all cast a damper over operations and profitability.

To maintain its competitive position in 1976 and 1977, many internal improvements were required of Howden's Electrical Division. Centralization of administrative functions reduced costs. Integration of inventory control systems and development of expense monitoring procedures eventually yielded significant savings. Improved techniques in utilizing computer capability aided productivity.

In marketing, the emphasis shifted from quantity of sales to quality. Targets were re-assessed. With major house building and institutional construction on the wane, and the likelihood of a major upturn fairly remote, fresh policies were developed.

The Division's first loyalty remains with the construction industry where service levels and technical excellence are vital. No less important is the necessity of accurate market-related pricing. For many years the Division has been supported in both these areas by its close contact with Spancan Inc. Founded in 1964 through Howden auspices, Spancan serves its 17 cross Canada shareholder customers as a group-buying source, a marketing authority, a research and counselling agency, and a respected voice in the Canadian Electrical Distribution Industry. With these strengths from which to draw, Howden - and the other members - supply contractors with merchandise of the quality required, at prices competitive with the great National distributors.

Though construction markets are dormant, the needs of industry persist. They reflect normal growth and the maintenance and replacement of equipment. In the early years Howden's participation in this market was minimal. Its merits however are impressive. It presents steady demand, tied to modest growth, relatively stable pricing and reasonable risk. The Division therefore has stepped up its approach to industrial accounts.

In another segment of the Electrical market, the do-it-yourself concept re-appears. Displays of household electrical components by mass merchandisers such as Canadian Tire, Woolco, Department Stores, Builders' Supply chains and others, are now commonplace. Howden's special expertise in this market embraces lighting fixtures and equipment. Until several years ago this was the exclusive domain of the Building Contractor. Now it is the householder who chooses and purchases the materials, and arranges for their installation.

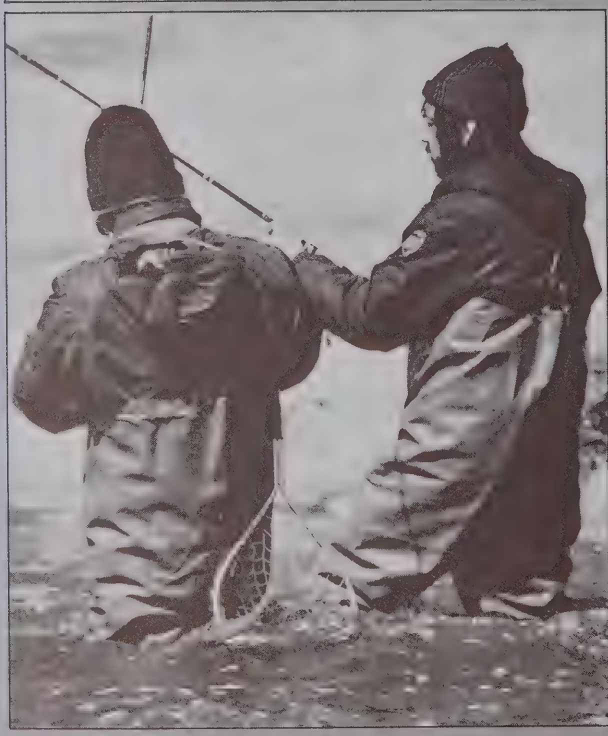
In catering to his needs, the distributor requires a specialized showroom and excellent sources of supply. Howden has gone a step further. To expose its products to a wider circle of consumers, a franchise agreement under the name of "Lite Gallery" is now available. Sites are chosen in heavily trafficked retail areas. Model inventories are selected. Procedures for operations are defined. The preferences of the consumer are continuously researched. Significant new business from this source is promising.

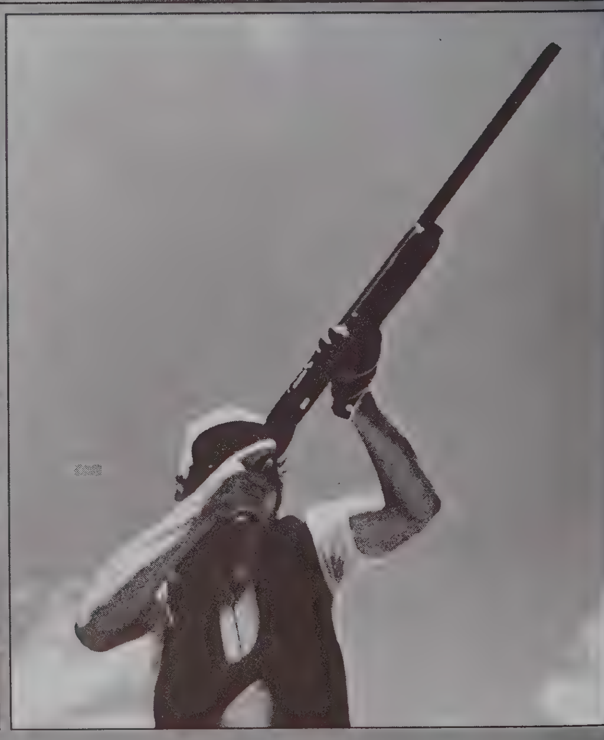
A timely theme in electrical distribution circles is "Energy Conservation". For many years manufacturers have refined their electrical products in numerous categories. The increasing degree of excellence of the product lines has been phenomenal, and the additional consumption of power perhaps even more so. The need to re-examine this trade off is felt to be of some importance, as is the rising cost of power transmission itself.

Thus, Governments at all levels are creating energy conservation programs complete with reference literature, seminars, workshops, research and many promotional aids.

In espousing the theme, the Spancan companies are emphasizing distribution of a number of new products which mesh with the principle of energy conservation. These include such products as newly designed fluorescent lamps and ballasts, overhead circulating fans, heat pumps, dimming devices, timers, power factor correction systems, sodium outdoor flood-lighting and many others. A national advertising campaign will continue through 1978.

The Division's reorganization of 1976 and 1977 has produced positive results. 1977 sales showed no increase, but operations were gratifyingly profitable. Extension of present policies through 1978 will support the upward trend in productivity.





Operations Review, Sporting Goods Division

Howden's role as a distributor of sporting goods is performed mainly in Ontario where some 300 specialty accounts are serviced, as are the requirements of many Pro Retail Stores. While a relatively broad range of products is carried, the Division concentrates on guns, ammunition, a broad selection of hunting equipment, and fishing tackle.

Hunters have for many years created a substantial and consistent market for their seasonal needs. Sportsmen spend approximately $83,000,000 annually within the province, quite apart from license fees. About 15% of the expenditures are made by non-residents. Of total dollars spent, approximately $30 million are accounted for by guns, ammunition, and hunting equipment related thereto.

The following Provincial statistics provide some understanding of the participation in and popularity of the sport. In 1976, over 590,000 hunting licenses were issued, broken out as follows:

For Deer: 91,000 - (yielding a harvest of 12,000)
For Moose: 91,000 - (yielding a harvest of 11,000)
For Bear: 11,000 - (yielding a harvest of 3,500)
For Small game and Waterfowl: 400,000

Number of licenses issued each year does not vary substantially, nor does the harvest. The peak license years of 1965-66-67 reached levels from 650,000 to 672,000. As a matter of interest, in 1976 one Ontario resident out of 15 used a license. By contrast, the states of Michigan and Pennsylvania, each with comparable populations, issued licenses to one out of ten of their residents.

Angling similarly provides a substantial and steady appeal. Almost 3,000,000 people enjoy the sport in Ontario annually, and they catch over 30,000,000 fish. They spend over $300 million annually, approximately ⅓ of which is contributed by non-residents. Food, lodging and travel account for the bulk of the expenditure, but a very substantial market ($50 million) does derive from the distribution of fishing tackle and related equipment, and marine supplies. Howden engages strongly in this particular market.

It is a market which presents stable and continuing demand, perhaps providing support to a quotation from Izaak Walton to the effect that "Angling may be said to be so like the mathematics that it can never be fully learnt."

The hardware store traditionally has been a strong purveyor of hunting and fishing equipment. In recent years its participation has given way somewhat under pressure from chain and department stores, and more particularly from sporting goods specialists of various types.

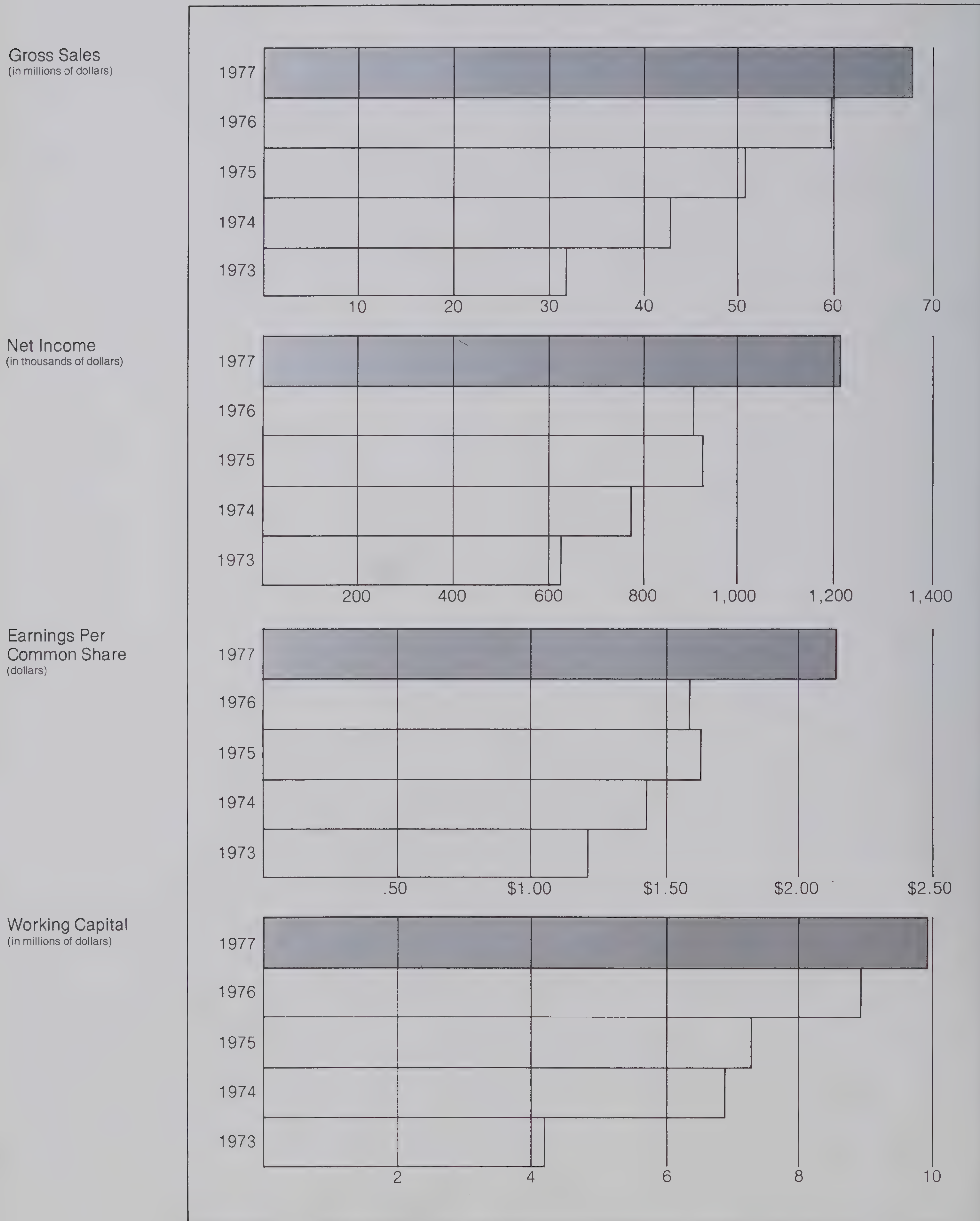
To take advantage of this trend, Howden has developed a special type of supply contract for gun and tackle specialists. The contract is mutually rewarding in that economies in purchasing and benefits from merchandising skills, are made available to the subscriber.

Some concern has been expressed as to curtailments which new firearms legislation may exert on hunting as a sport. In 1979 Federally enacted regulations will impose restrictions on the sale, storage, display, recording, advertising and handling of firearms and ammunition. Certificates, duly approved by the local law enforcement agency must be presented to the vendor before a sale can occur. Retailers and wholesaler alike will be required to maintain detailed sales and purchasing records, complete with all identification of the product involved.

With regard to the handling, storage and display of weapons, vendors are required to ensure that employees and customers do not handle a loaded firearm on the premises of sale, and that firearms and inventory be subject to locking devices of a fairly sophisticated nature, and be stored in locked cabinets or display cases. Customers can handle a firearm only under supervision of an employee. Advertisment of firearms must not depict or extol violence against another person.

The net effect of such regulations is expected to be beneficial to the community at large and also to the various participants in the total industry. Within the distribution function, it would appear likely that the rigors of record keeping and product handling will tend to discourage other than well qualified and properly equipped retailers. The specialists (who constitute the Howden market) therefore should benefit, as diverse smaller retailers who perhaps carry the product as an incidental line tend to diminish. Manufacturers and distributors should recognize marketing economies and efficiencies in such a trend.

While legislation cannot solve all the problems of indiscriminate use of firearms, it is to be hoped the new legislation will be of assistance to all communities. In so doing it will help to maintain a very popular market on a stable economic basis.



Gross Sales
(in millions of dollars)
1977
1976
1975
1974
1973
10
20
30
40
50
60
70
Net Income
(in thousands of dollars)
1977
1976
1975
1974
1973
200
400
600
800
1,000
1,200
1,400
Earnings Per Common Share
(dollars)
1977
1976
1975
1974
1973
.50
$1.00
$1.50
$2.00
$2.50
Working Capital
(in millions of dollars)
1977
1976
1975
1974
1973
2
4
6
8
10

Financial Review

In 1977, consolidated gross operating revenue of the Company increased by 13.5% to $67.9 million. This is a new record and continues an unbroken trend since 1970.

Net income after taxes was $1,205,827 or $2.14 per common share, which compares to $902,782 or $1.59 per common share in 1976. This also constitutes a record performance for the Company.

The 33% increase in earnings has its origins in all phases of the business. The sales increase of 13% more than offset any inflationary movement; margins, although under great pressure, were maintained satisfactorily; productivity of staff was heightened so that increased handling and processing costs were compensated; freight costs - a major item - were controlled; and costs of financing were minimized through greater asset turnover and favourable borrowing rates. The tax benefit from the 3% inventory allowance permitted as a tax deductible expense accounted for earnings of $.20 per share.

The two major assets - accounts receivable and inventory - increased during the year in response to higher sales. Turnover of both showed consistent improvement and in so doing permitted sales expansion at minimum funding cost.

Working capital at year-end was $9.9 million, an improvement of slightly over $1 million. A substantial portion of the increase resulted from earnings retained in the business. A further contribution arose from proceeds of the $4 million fixed and floating charge debenture issued by the Company in January 1977. Of total proceeds, $3,200,000 was applied to outstanding bank loans as of December 31, 1976, and the balance of $800,000 was applied to increase the working capital of the Company in 1977.

Working capital requirements for 1978 will be greater in view of anticipated sales expansion. Present sources of financing, both long and short-term, appear to be adequate.

During the year dividends of $178,750 were paid to common shareholders, the annual dividend rate having been raised from $.30 to $.32½ per share. In October, all of the outstanding first preferred shares were redeemed at par together with a premium of $1.50 per share. Payments under the Employee Profit Sharing Plan amounted to $.10 per share, compared to last year's $.07 per share.

Common shares traded during the year were 24,600 at a high of $8¾ and a low of $6¾. Shareholders' equity is $7,220,172, an increase of $881,387. Book value of each common share is $12.27 an increase of $1.82 per share.

Return on net worth reflects the year's successful operation, and compares in an interesting way to the prior 3 years.

	Net Profit Margin		Asset Turnover		Financial Leverage	Return on Net Worth
1974	1.97	x	2.90	x	3.59	20.50%
1975	1.91	x	2.93	x	3.40	19.07%
1976	1.59	x	3.17	x	3.20	16.13%
1977	1.88	x	3.30	x	3.07	19.02%

1977 profit margins were superior to 1976 and more in line with prior levels. Turnover of assets - essentially inventories and trade receivables - showed continuing improvement. Financial leverage at 3.07% is an acceptable relationship between equity and assets. In short, the resumption of the trend towards higher profitability coupled with better turnover of inventory and receivables, achieved in 1977 a rate of return approximating the company's target for growth.

Capital expenditures during the year were $275,000 devoted principally towards updating of equipment and required replacements.

With distribution extending to both the Atlantic and Pacific Coasts, and under pressure of continuously expanding sales, the physical problems of material handling are extensive. Southdale Road facility with its 240,000 square feet of warehouse space and computerized control, is both the physical and the nerve centre. To give it flexibility and reserve, a second warehouse of 60,000 square feet located in reasonably close proximity became operative early in 1977. Co-ordination of the two facilities matured during the year, enabling the Company to maintain its prompt delivery schedule for Central Canada as well as the Eastern and Western Provinces. The principle is to utilize the main Southdale facility as a filling and stocking warehouse for standard inventory, and the White Oaks auxiliary as a marshalling and shipping unit, as well as a centre for outsized products.

At peak inventory seasons - early Spring and Fall - outside warehouse space is leased as required. For 1978 requirements, space now available is adequate. Future demands based on continuing sales expansion will call for utilization of a more permanent resource.

Prompt shipping requires effective communications and material handling. Electronic ordering devices such as MSI place orders directly within the company computer on wired instruction from the customers' premises. The company's investment in conveyor and tow systems is already very extensive. Mechanical picking and stocking equipment provides added speed and efficiency. The final step sees the customer's order securely delivered to his store, through the good services of the company's fleet of 10 straight trucks and 22 tractor trailers. With time frames thus shortened and scheduled deliveries rigidly adhered to, equipment of dependable excellence has been matched by the demonstrated ability of trained staff in achieving company standards of performance.

D. H. Howden & Co. Limited and Subsidiary Companies (Incorporated under the Business Corporations Act - Ontario)

Consolidated Balance Sheet as at December 31

Assets	**1977**	1976
Current		
Cash	**$ 185,249**	$ 138,961
Accounts receivable	**9,119,991**	7,241,987
Inventories	**8,326,397**	7,919,376
Prepaid expense	**141,560**	170,146
Income taxes recoverable	**—**	68,863
	17,773,197	15,539,333
Equipment and leasehold improvements	**1,455,759**	1,181,082
Less accumulated depreciation and amortization	**690,059**	567,206
	765,700	613,876
Other		
Cash surrender value of life insurance	**22,542**	21,533
Equity in corporate joint ventures	**138,071**	148,204
Equity in unconsolidated subsidiaries	**5,730**	5,730
	166,343	175,467
	$18,705,240	$16,328,676

On behalf of the Board

Director D.H.M. STEWART

Director N. McBETH

Liabilities

	1977	1976
Current		
Bank indebtedness (note 2)	**$ 1,100,000**	$ —
Accounts payable	**5,484,190**	5,746,006
Accrued charges	**492,126**	305,988
Current portion of long-term debt (note 3)	**676,134**	530,800
Income taxes payable (note 4)	**41,071**	—
	7,793,521	6,582,794
Long-term debt (note 3)	**3,691,547**	3,407,097

Shareholders' Equity

Capital stock (note 5)		
5½% cumulative redeemable participating sinking fund first preference shares of $50 par value each		
Authorized and issued		
1977 - Nil shares; 1976 - 2,921 shares	—	146,050
3% non-cumulative redeemable second preference shares of $1 par value each		
Authorized		
1977 - 1,225,000 shares; 1976 - 1,261,000 shares		
Issued		
1977 - 473,000 shares; 1976 - 446,000 shares	**473,000**	446,000
Common shares		
Authorized - 1,000,000 shares without par value		
Issued		
550,000 shares	**621,000**	621,000
Retained earnings	**6,126,172**	5,125,735
	7,220,172	6,338,785
	$18,705,240	$16,328,676

D. H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Income

For The Year Ended December 31

	1977	1976
Gross sales	**$67,873,794**	$59,806,176
Less sales tax	**3,585,943**	3,161,632
	64,287,851	56,644,544
Cost of sales and operating expenses other than items noted below	**61,496,099**	54,296,645
Interest (note 6)	**645,593**	696,813
Depreciation and amortization	**122,852**	105,654
Operating profit	**2,023,307**	1,545,432
Share of net income of corporate joint ventures	**33,520**	37,350
Income before income taxes	**2,056,827**	1,582,782
Income taxes (note 4)	**851,000**	680,000
Net income for the year	**$ 1,205,827**	$ 902,782
Earnings per common share	**$2.14**	$1.59

D. H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings

For The Year Ended December 31

	1977	1976
Retained earnings, beginning of year	**$ 5,125,735**	$ 4,415,839
Net income for the year	**1,205,827**	902,782
	6,331,562	5,318,621
Dividends		
First preference shares	**13,875**	14,536
Second preference shares	**12,765**	13,350
Common shares	**178,750**	165,000
	205,390	192,886
Retained earnings, end of year	**$ 6,126,172**	$ 5,125,735

D. H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

For The Year Ended December 31

Source of working capital	1977	1976
Funds provided from operations		
Net income for the year	$ 1,205,827	$ 902,782
Non-fund items		
Depreciation and amortization	122,852	105,654
Profit on disposal of equipment and leasehold improvements	—	(2,394)
Share of net income of corporate joint ventures	(33,520)	(37,350)
	1,295,159	968,692
Disposal of equipment and leasehold improvements	900	2,600
Reduction of investment in corporate joint ventures	43,653	67,267
Reduction of mortgage and debenture receivable	—	26,375
Long-term debt	800,000	1,445,377
Second preference shares issued	63,000	63,500
	2,202,712	2,573,811

Application of working capital	1977	1976
Equipment and leasehold improvements	275,576	254,172
Cash surrender value of insurance	1,009	899
Long-term debt	515,550	530,816
Redemption of first preference shares	146,050	13,750
Purchase of second preference shares	36,000	3,000
Dividends	205,390	192,886
	1,179,575	995,523
Increase in working capital	$ 1,023,137	$ 1,578,288

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Howden-Howland Limited, Cowan Hardware (1968) Limited and D. H. Howden Stores (Central) Limited.

The equity of D. H. Howden & Co. Limited in unconsolidated subsidiaries consists of the company's investment in Pro Hardware (Canada) Limited and in Spancan Inc. (formerly Span-Canada Electric Limited). Although these two companies are technically subsidiaries of D. H. Howden & Co. Limited through ownership of voting control, in substance they represent corporate joint ventures on the part of a number of non-competing wholesalers who participate in an integrated merchandising programme and volume purchasing. It was considered inappropriate to consolidate the assets and liabilities of these companies since they consist primarily of amounts due from unrelated companies of these subsidiaries on their behalf. All the expenses of these companies and volume discounts derived from their operations are apportioned to participating member companies. The share of D. H. Howden & Co. Limited in these expenses and volume discounts is reflected in the accompanying financial statements.

Investments in corporate joint ventures, Computer Horizons (Canada) Limited and Supreme Sports Limited, are carried at Howden's share of equity therein and advances to such corporations. The company's share of their earnings is included in consolidated net income.

Inventories

Inventories consist of finished goods and are valued at the lower of cost on a first-in, first-out basis and net realizable value.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost and depreciated or amortized over their estimated useful lives. Equipment is depreciated using the declining balance method at rates of 20% and 30% and leasehold improvements are amortized using the straight-line method over the term of the relevant lease.

2. Bank Indebtedness

Bank indebtedness is secured by an assignment of accounts receivable.

3. Long-term Debt

	1977	1976
D. H. Howden & Co. Limited		
Bank loans		
Loan secured by accounts receivable	$ —	$1,400,000
Term loan, payable $100,000 quarterly with interest 1½% above the prime bank rate and maturing May 15, 1981	—	1,800,000
Fixed and floating charge debenture payable $285,714 semi-annually maturing February 1, 1984, with interest varying from time to time related to the lender's cost of borrowing. The rate at December 31, 1977 was 9.25%	**3,714,286**	—
	3,714,286	3,200,000
8% mortgage, payable $445 monthly with interest and maturing September 30, 1990	**32,695**	45,377
6% secured sinking fund debentures maturing May 1, 1989	**620,700**	692,520
	4,367,681	3,937,897
Less portion due within one year	**676,134**	530,800
	$3,691,547	$3,407,097

The security provided for the 6% sinking fund debentures is a floating charge on all company assets but such security is subordinate to that provided for the bank debenture.

The annual sinking fund provision is comprised of 10% of the company's unconsolidated net income exclusive of extraordinary items. The provision for 1978 is $103,134 (1977 - $62,516).

4. Income Taxes

The income tax provision for 1977 has been reduced by $115,000 to reflect the 3% inventory tax allowance.

5. Capital Stock

First preference shares

During 1977 the outstanding 2,921 first preference shares were redeemed at a cost of $150,431. The premium on redemption was $4,381.

Second preference shares

During 1977 63,000 second preference shares were issued for cash and 36,000 shares were acquired at par value.

6. Interest on Long-term Debt

Interest on long-term debt amounted to $376,566 in 1977 (1976 - $277,693).

7. Lease Commitments

The company has entered into lease agreements with varying expiry dates to November 30, 2000 for certain buildings and equipment. The annual lease payments required for the next five years are as follows:

Year ending December 31,	1978	$ 624,000
	1979	620,000
	1980	561,000
	1981	515,000
	1982	472,000
		$2,792,000

8. Remuneration of Directors and Senior Officers

The aggregate direct remuneration for 1977 of the directors and senior officers amounted to $328,975 of which $293,175 was paid by the company and its consolidated subsidiaries and $35,800 was paid by unconsolidated subsidiaries.

9. Contingent Liabilities

The company was contingently liable at December 31, 1977 as follows:

Guarantee of trade paper	$114,000
Guarantee of corporate joint venture bank indebtedness	87,000
	$201,000

10. Anti-Inflation Legislation

Because the company is listed on the Toronto Stock Exchange, total annual dividends are restricted under the Anti-Inflation Legislation to a maximum of $243,524 in the twelve month period ending October 13, 1978. Dividend payments subsequent to October 13, 1978 will not be subject to restrictions.

In the period October 14, 1977 to December 31, 1977 the company declared and paid dividends on second preference and common shares totalling $109,015.

11. Comparative Figures

Certain 1976 comparative figures have been reclassified to conform to the presentation adopted for 1977.

The Shareholders,
D.H. Howden & Co. Limited.

We have examined the consolidated balance sheet of D.H. Howden & Co. Limited as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LONDON, Ontario,
February 10, 1978.

TOUCHE ROSS & CO.
Chartered Accountants.

10 Year Financial Highlights

	1977	1976 (Restated)	1975	1974
Operating Results				
Gross sales	**$67,873,794**	$59,806,176	$51,028,667	$42,766,017
Income before income taxes and extraordinary items	**2,056,827**	1,582,782	1,743,458	1,644,495
Income taxes	**851,000**	680,000	824,500	862,500
Income before extraordinary item	**1,205,827**	902,782	918,958	781,995
Extraordinary item				
Net income	**1,205,827**	902,782	918,958	781,995
Retained earnings	**6,126,172**	5,125,735	4,415,839	3,662,412
Financial Position				
Accounts receivable	**9,119,991**	7,241,987	7,789,567	6,290,762
Inventories	**8,326,397**	7,919,376	6,164,665	5,949,297
Total current liabilities	**7,793,521**	6,582,794	6,876,039	5,520,091
Working capital	**9,979,676**	8,956,539	7,378,251	6,959,009
Long-term debt	**3,691,547**	3,407,097	2,492,536	2,785,200
Shareholders' equity	**7,220,172**	6,338,785	5,582,139	4,819,162
Return on net worth (January 1)	**19.02%**	16.13%	19.07%	20.51%
Per Common Share				
Earnings before extraordinary item	**2.14**	1.59	1.62	1.44
Net earnings	**2.14**	1.59	1.62	1.44
Shareholders' equity	**12.27**	10.45	9.16	7.79

1973	1972	1971	1970	1969	1968
		(Restated)	(Restated)		
$32,476,731	$27,794,722	$22,045,644	$20,118,085	$21,796,287	$19,577,456
1,296,869	875,375	399,964	182,518	366,606	539,178
670,000	444,000	258,800	115,600	182,695	281,000
626,869	431,375	141,164	66,918	183,911	258,178
10,000	134,824			181,990	
636,869	566,199	141,164	66,918	365,901	258,178
3,013,910	2,397,394	1,852,261	1,732,001	1,686,576	1,357,795
5,182,223	4,940,433	3,695,805	3,089,443	3,092,691	2,368,017
3,780,499	3,331,779	2,651,372	2,592,864	2,803,080	2,397,661
4,995,634	4,662,107	3,277,627	2,906,757	3,156,881	2,798,519
4,142,126	3,737,735	3,241,458	3,081,534	3,075,046	2,041,594
875,348	991,109	1,072,856	1,093,241	1,123,664	129,354
3,812,560	3,204,894	2,655,811	2,535,551	2,498,876	2,174,945
19.89%	16.22%	5.57%	2.68%	8.46%	
1.21	.82	.24	.09	.32	.41
1.23	1.09	.24	.09	.68	.41
6.61	5.38	4.29	4.05	3.95	3.30

HOWDEN